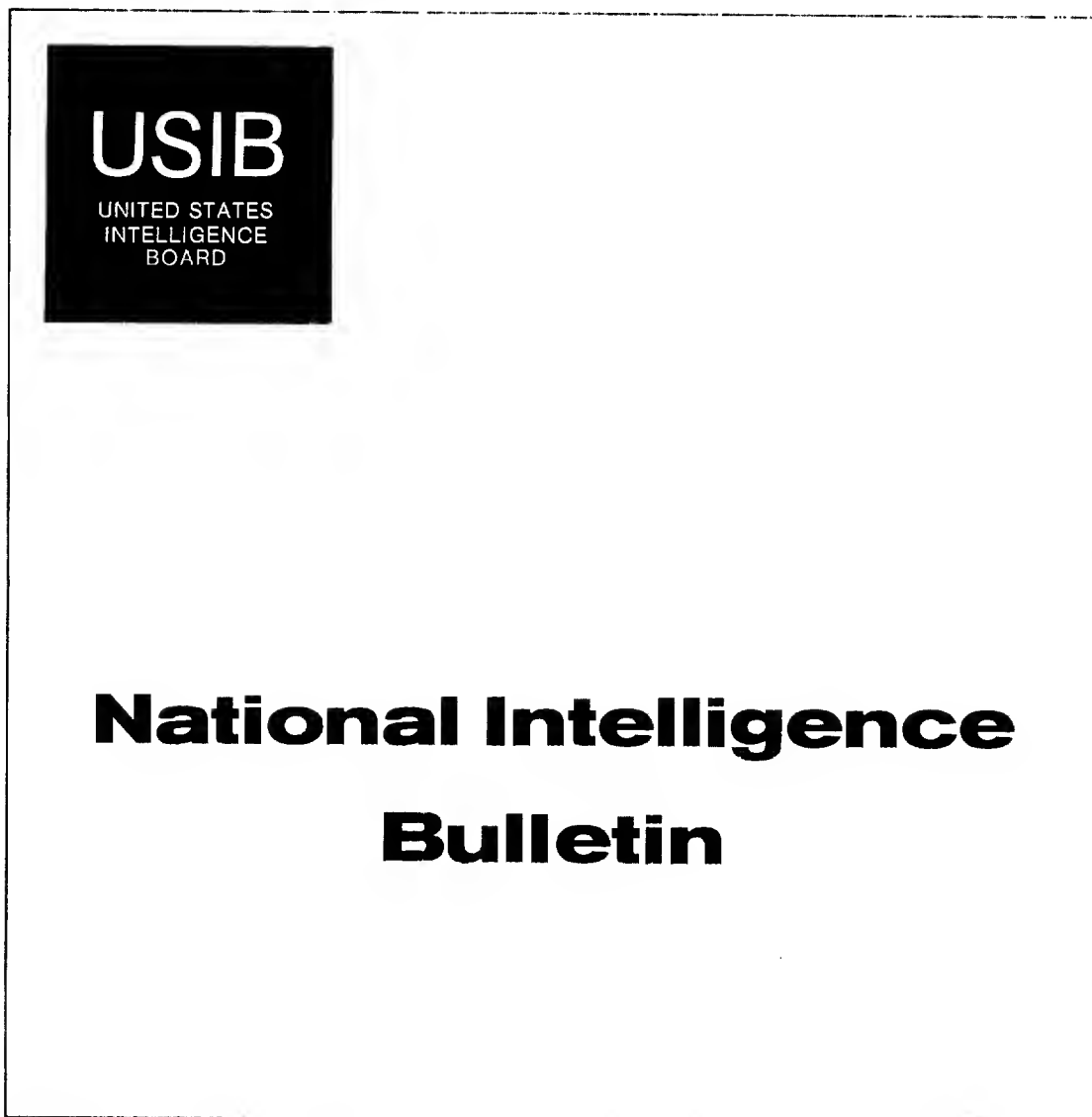


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EGYPT

The violent demonstration over economic grievances in downtown Cairo yesterday could fuel further disturbances among disgruntled Egyptian students and workers, although President Sadat intends to take strong measures against future trouble.

Workers from military factories at Hulwan, south of Cairo, marched on the capital yesterday morning to protest rising prices and demand wage increases. The workers were joined by students from Cairo University and, before being driven off by police, smashed windows of government stores and office buildings. One government official said the demonstrators totaled 800-900.

Prime Minister Hijazi was apparently the chief object of the protesters' wrath, but President Sadat was also being criticized for having failed to bring about the promised economic recovery after the war in October 1973. The demonstrators called for Hijazi's ouster and for a return to Nasirist socialism.

Discontent over economic problems--chiefly shortages in government stores and inflated prices for goods diverted to the black market--has been compounded by increased restlessness over the absence of progress in peace negotiations. Dissidents, particularly Marxists, have been attempting to stir up trouble among labor and student groups, and government officials had been anticipating some disturbances.

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[redacted] the demonstration yesterday could spark additional disturbances. Discontent will remain prevalent until the economic troubles that are causing it have been remedied, and leftist agitators could turn the dissatisfaction to open criticism of political issues as well.

Sadat has come under fire for some months for his policy shift toward the US. This is viewed by many Egyptians as having succeeded only in alienating the Soviet Union.

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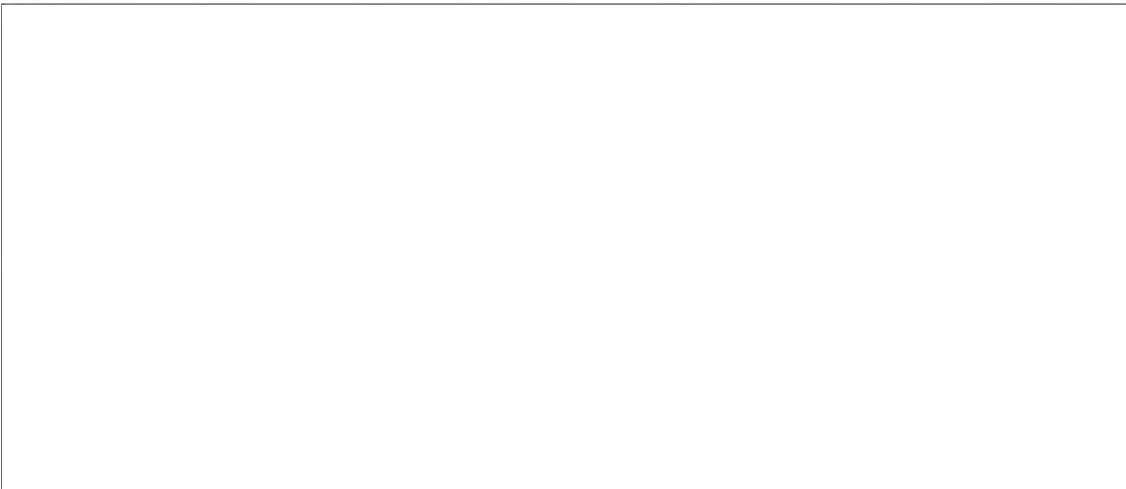
SAUDI ARABIA

The Saudi government again has registered to the US its impatience over lack of progress in Middle East peace efforts and its concern over media speculation that the US contemplates invasion of some Arab oil-producing countries.

On the instructions of King Faysal, acting Saudi minister of state for foreign affairs Masud called on Ambassador Akins on December 31. Masud produced excerpts of recent press attacks on Saudi policies as well as Saudi embassy reports indicating that several Arab governments are unhappy over Saudi support for US peace-making activities.

According to these Arab critics, Faysal had put his prestige behind US settlement efforts and had participated in these efforts by persuading the Syrians to extend the mandate of the UN peace-keeping force. They contend that Saudi Arabia has been duped into believing US promises to induce the Israelis to withdraw from territory occupied in 1967. The Arabs quoted public statements by prominent Israeli officials to show Israel planned to attack them soon; they charged the US would never try to restrain Tel Aviv.

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The Saudis are obviously trying to generate some progress toward a settlement and their demarche is meant to convey the message that their pro-American stance may no longer be serving their interests. In addition, they appear to be sincerely concerned by the talk of an invasion. They hope to make clear that any such move would be disastrous to Western interests, and that Saudi oil policies will not be shaken by threats.

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ARAB STATES

The foreign ministers of Egypt, Syria, and Jordan and representatives of the Palestine Liberation Organization are scheduled to begin four-party talks in Cairo today. The meeting has been called to formulate a joint Arab strategy for future Middle East peace negotiations.

The Syrians and Palestinians have been pushing for this meeting in the hope they can block any independent Egyptian move toward a second disengagement agreement with the Israelis in the Sinai. The PLO hopes to keep Arab attention focused on the Palestinian cause and--ideally--hopes to regain access to Jordanian territory for fedayeen strikes at Israel.

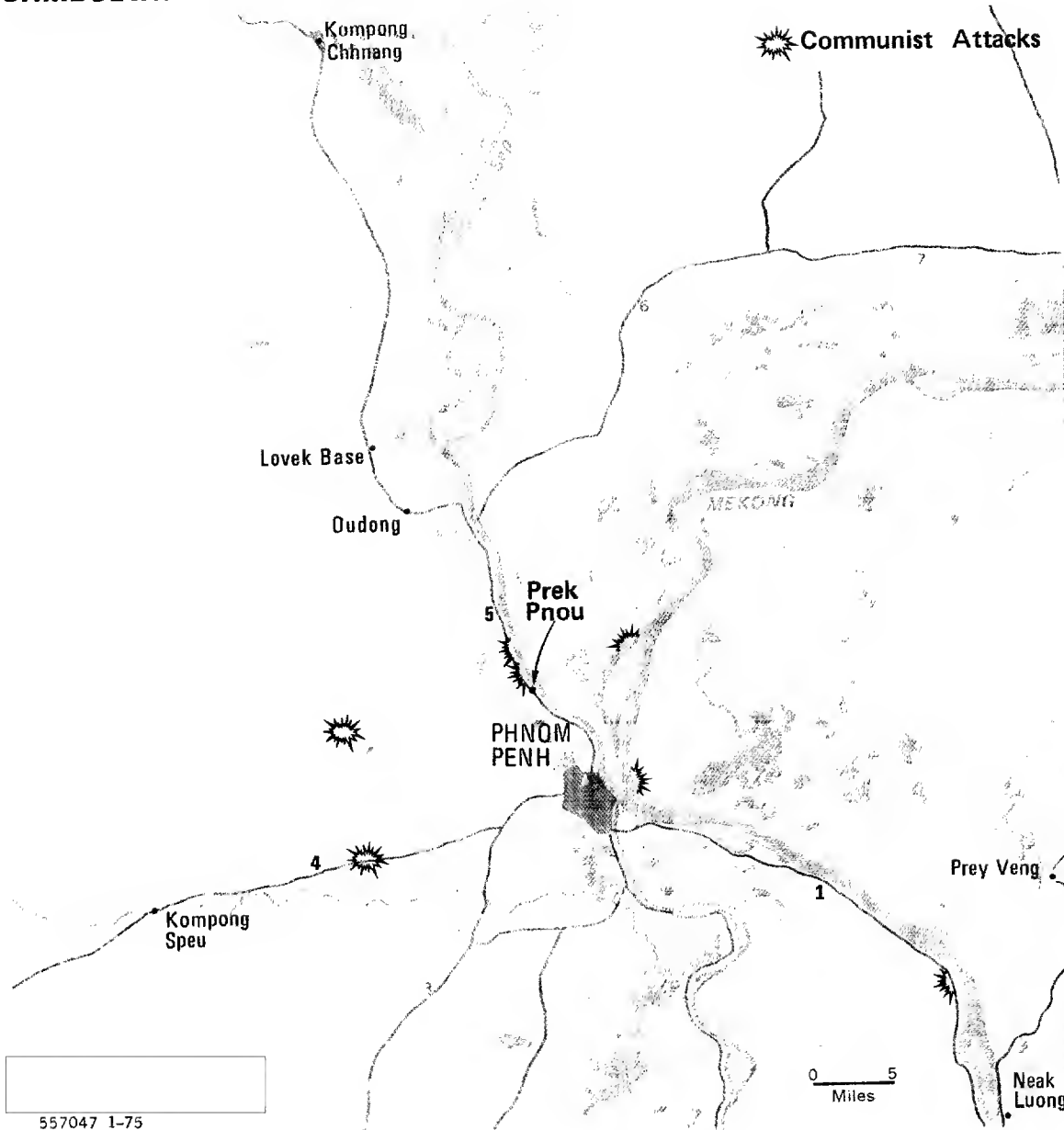
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Egypt and Jordan will be reluctant to commit themselves to any tactics that would tie their fate to that of the Syrians or Palestinians. Cairo does not want to jeopardize the success of the step-by-step approach to negotiations used so far. Amman apparently considers that a continuation of the Arabs' ambiguous negotiating strategy and the resultant failure to regain the West Bank will eventually oblige the other Arabs to offer Jordan a role in working out the future of the area.

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## CAMBODIA: Phnom Penh Area



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CAMBODIA

The Khmer Communists began the initial phase of their dry-season campaign on January 1 with a series of coordinated attacks near Phnom Penh. Routes 4 and 5 have been interdicted and positions on both banks of the Mekong River near the capital have fallen. The Communists have also launched heavy attacks against the Cambodian army's 7th Division northwest of Phnom Penh.

The most costly government territorial losses have occurred along Route 5 where heavy Communist pressure has forced the abandonment of the military fuel depot at Prek Pnou. Unconfirmed reports indicate that the depot was burning late yesterday. Government troops did manage to take a ten-day supply of fuel with them when they withdrew.

Government forces were caught off guard by the attacks, but are beginning to counterattack with the support of the navy and air force. Reinforcements have been committed to the east bank of the Mekong River in an attempt to push the Communists out of rocket range of the capital in this sector. Other government troops are expected to begin clearing operations along Route 4 and northwest of the capital shortly.

Despite the widespread attacks around Phnom Penh, there is no evidence that an all-out assault against the city is in the offing. Instead, the attacks may have been a diversionary effort to tie down government forces around Phnom Penh and to mask the beginning of a major Communist interdiction effort along the lower Mekong. Communist units yesterday closed Route 1 near a river choke point some 25 miles southeast of Phnom Penh and other government outposts along the river are under some pressure.

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CHINA

A joint editorial in Peking's major publications greeted the new year with a sober assessment of the past year and no confident predictions.

The editorial made no reference to convening the National People's Congress, China's rubber-stamp legislature. Preparations have been under way for some months and seem to be continuing. Throughout December, leaders from Peking apparently conferred with Mao in Hunan Province, where he has been residing since last fall.. Several personnel appointments in the national military hierarchy and in the provinces indicate that some progress has been made toward convening the congress, which is charged with ratifying government appointments.

There has apparently been less progress on the major problem of army-civilian relations. The editorial's routine praise for the army was followed immediately by a call to strengthen party leadership, suggesting that Peking continues to encounter difficulties in putting the army under firm party control. References in the editorial to "national betrayal" and to national defense industries seem to be alluding to specific problems with the military. For the past year, certain important military men have been accused by innuendo of seeking accommodation with Moscow and pushing for greater reliance on nuclear weapons. Both concepts are in direct conflict with Peking's current policies of maintaining hostility toward the Soviet Union and relying primarily on conventional weapons.

The editorial said that the anti-Confucius campaign will continue, with its main emphasis on study and criticism. This formulation has been used since early last summer to prevent the campaign from disrupting public order. Indicating some displeasure with the progress of the campaign, the editorial noted some organizations have "not done well" and that "new problems" have emerged. Although the editorial reiterated calls

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for unity and for using the campaign to spur production, its references to "shooting the arrow at the target" and "dealing blows" to unnamed "counterrevolutionaries" suggest that the campaign is more than a study movement and has specific personal targets.

On the economic front, the editorial did not repeat earlier claims of a "record" harvest, but said only that 1974 saw an "all-around good harvest." By lumping agriculture and industry together, the editorial was able to claim an increase in total production over the previous year. Much of this increase probably results from China's growing oil industry.

Peking's brief treatment of foreign affairs reaffirmed current policy lines. The editorial urged a continuation of "Chairman Mao's revolutionary line in foreign affairs"--a stock phrase for efforts to improve Sino-American ties. Not surprisingly, the Chinese continued to court the Third World by making much of the developing countries' struggle against "superpower" hegemony.

The editorial was more interesting for what it chose not to say and, in this sense, seemed to take a modest view of foreign policy accomplishments in 1974. Whereas in the 1973 editorial Peking characterized the international situation as "excellent," the editorial this year simply said that "new successes" had been achieved during the year. Moreover, the Chinese avoided mention of specific issues and adhered closely to general and familiar formulations. In contrast, the 1973 editorial discussed at some length relations between the superpowers as well as the situation in Asia and the Middle East.

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SOUTH KOREA

The South Korean assistant minister for logistics recently informed a US official in Seoul that purchase of the French Exocet naval missile system was imminent. The South Koreans seem anxious to get naval surface-to-surface missiles and are trying to pressure the US to deliver its Harpoon missile in 1975 rather than later.

In discussing the Exocet, the Korean indicated that French representatives would arrive in South Korea later this month with a specific letter of offer for the Exocet. A tentative agreement between the two countries calls for the French to provide five Exocet systems and the necessary fire control systems by late 1976. The missiles would be installed on ships to be built in Korea. He added, however, that if the longer range US Harpoon system were made available to Seoul in 1975--an unlikely event--there would be no requirement for the Exocet.

The assistant minister also said that Seoul had decided to purchase submarines from the British as a counter to the North Korean W- and R-class units. A British delegation is scheduled to visit in January to discuss final negotiations for five 540-ton submarines--two to be built in Britain and the remaining three in South Korea. Seoul is seeking US approval for this purchase, submarines of this size are unavailable from US sources. These submarines, in fact, would not be an effective counter to Pyongyang's W- and R-class submarines, although they could be useful for reconnaissance and for hit-and-run commando type raids.

It appears likely that the South Koreans initiated the discussion to impress upon the US official the concern within the Ministry of National Defense over the lack of US responsiveness to Seoul's needs.

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The assistant minister indicated that he and others in the Defense Ministry, were in favor of "US procurement only," but were encountering opposition. He concluded that the US should provide "better service" if it wished to forestall South Korean third-country procurement.

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JAPAN

Japan has been moving faster to carry through on promised economic aid to the Middle East in the past several months. By expediting loan pledges made during the oil crisis last winter, Japan has mitigated some earlier criticism over the slow progress toward formalizing its aid promises. Tokyo had pledged about \$570 million in official loans on concessional terms to six Arab countries, but by September it had only concluded agreements with Iraq and Egypt for \$250 million and \$25 million respectively.

Since October, Japan and Egypt have agreed on projects to be financed by a proposed \$50-million loan. Tokyo also has concluded loan agreements with Algeria for \$40 million and with Jordan for \$10 million, both of which will help finance the sale of Japanese telecommunications equipment.

Japan is prepared for swift agreement on most of the remaining pledges, but is waiting for project evaluations by the recipient countries. Egypt is slated to receive \$140 million to help finance Suez Canal construction work to be undertaken by a Japanese firm, as well as another \$25-million commodity loan. A \$22-million project loan to Syria for an oil refinery is also pending.

In some cases, substantial private funds will supplement official credits. The agreement with Baghdad provides for \$750 million in commercial credits, and the pending agreement with Syria will include \$68 million in private loans.

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MEXICO

Kuwaiti Finance and Oil Minister Atiqi announced on Tuesday that Mexico has asked to be admitted to OPEC. The announcement does not specify whether Mexico is asking for full membership or merely observer status.

Mexico has expressed support for OPEC's pricing policy and indicated an interest in observer status at OPEC meetings. It did not, however, seek admission to the ministerial meeting in Vienna on December 12. The leftist secretary of national properties, Horacio Flores de la Pena, is the principal supporter of Mexican entry into OPEC.

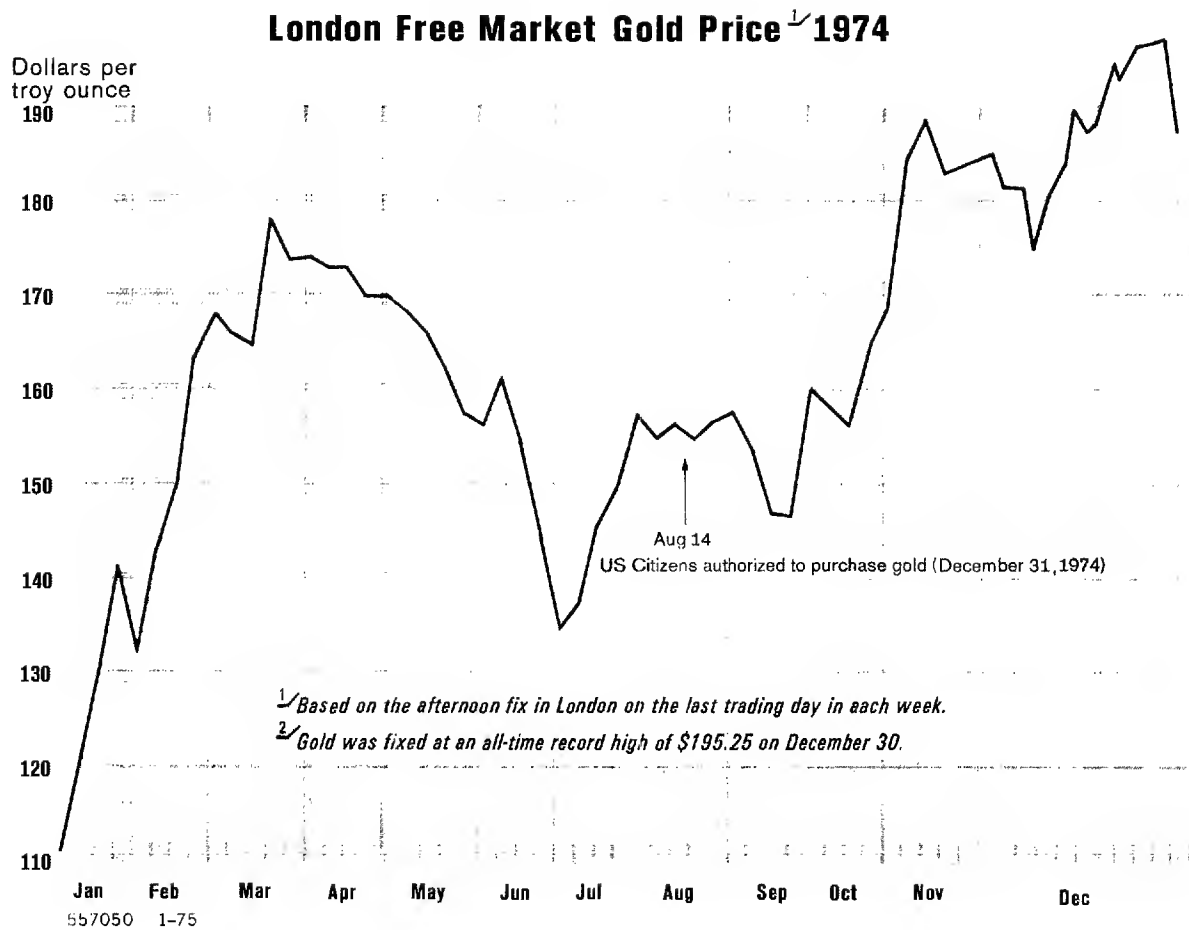
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No official action on the Mexican application is likely until the next ordinary meeting of OPEC oil ministers scheduled for June 1975. Mexico could qualify for full membership at that time since its exports are expected to be between 150,000 and 300,000 barrels per day. Full membership in OPEC requires that a country be a substantial exporter of oil.

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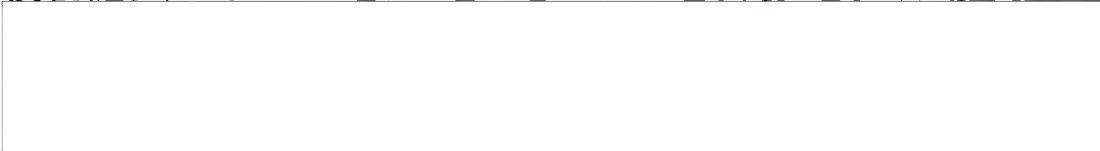
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GOLD

Gold prices fell \$13 in London Tuesday from a high of \$199.50 an ounce on Monday as US citizens legally entered the market. Prices declined sharply in all major European trading centers. Gold was off \$11.50 in Zurich from a high on Monday of \$199.

Most traders attributed the drop to end-of-the-year profit-taking and denied that lower than expected US demand caused the decline. Gold prices have increased some \$40 an ounce since mid-October, largely in anticipation of US demand.

The first day of gold trading in the US was hectic at times, but early press indications are that trading volume was below expectations. With the US auction of 2 million ounces scheduled to take place on January 6, prices could continue to decline if US purchases continue below expectations when the markets reopen January 2.



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LIBYA

Libya lifted its oil embargo against the US this week, ten months after other Arab oil producers removed their restrictions against Washington. The move is of little commercial significance; Libya supplied only 4 percent of US crude oil imports before the embargo, and other producers have easily made up this difference.

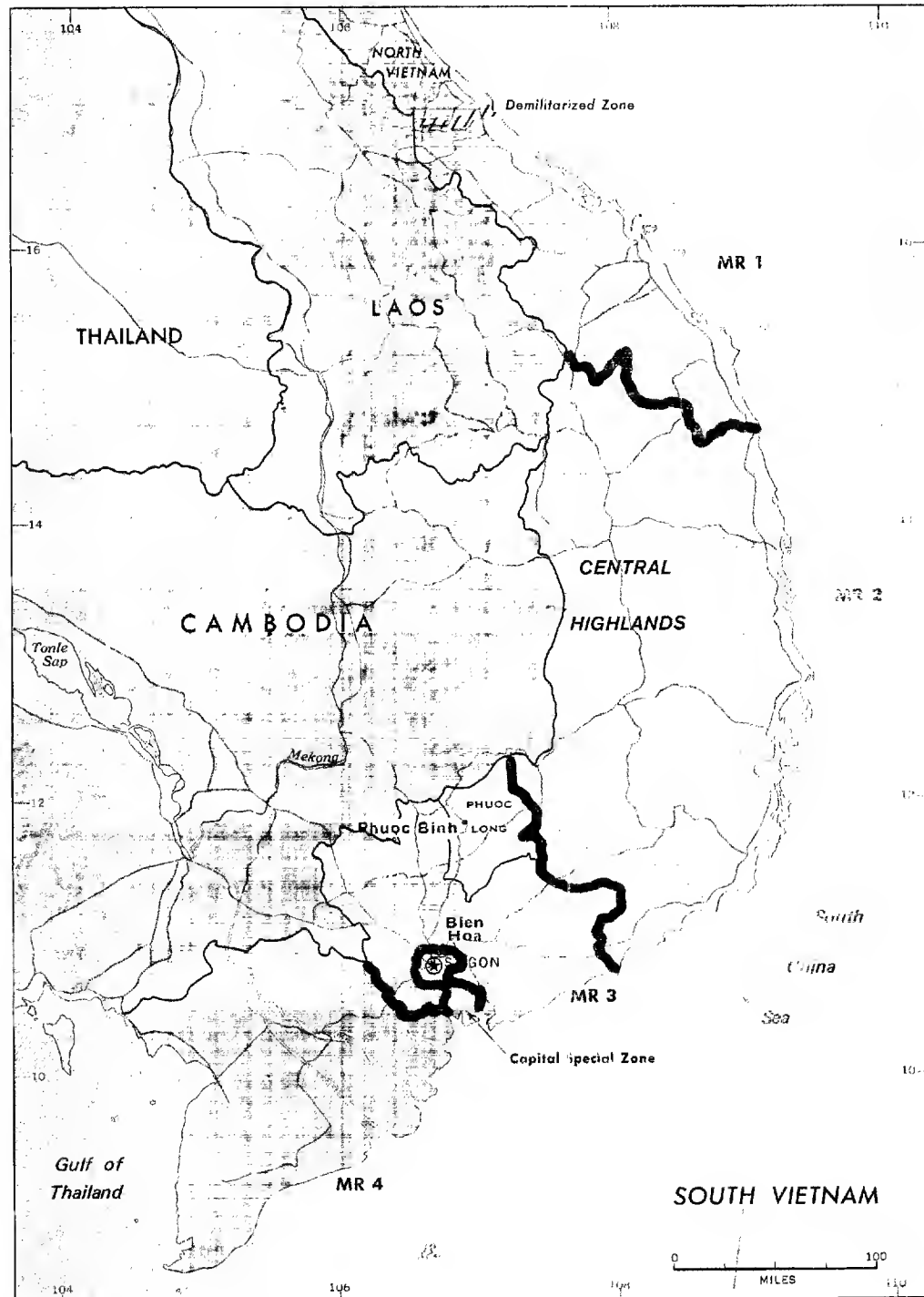
The gesture, however, is another in a series of signals from the Libyans that they are interested in improving their correct but cool diplomatic ties with Washington. Although relations have never been officially broken, the ambassadorial posts in both countries have been vacant since late 1972.

For over six months, Libyan officials have been quietly exploring ways to begin a dialogue with the US, but Tripoli has been hesitant to take the lead. This week's announcement may have been prompted by congratulatory messages from President Ford and Secretary Kissinger to President Qadhafi and Foreign Minister al-Huni on the occasion of an important Muslim holiday last week. The Libyan press took special note of the courtesy.

Qadhafi is still no friend of the US, but he apparently believes an improvement in relations with Washington would offer Libya important benefits. His immediate interest is in resolving problems in the delivery of US military transport aircraft and improving chances of gaining Washington's approval of future exports from private US companies.

Qadhafi would also like to dispel the impression that he has abandoned his policy of strict nonalignment as a result of the major arms deal concluded with the Soviets last spring. Finally, Qadhafi is working hard to repair his ties with Egypt and other Arab moderates and would like to demonstrate to them that he is now prepared to participate in at least some aspects of coordinated Arab policy.

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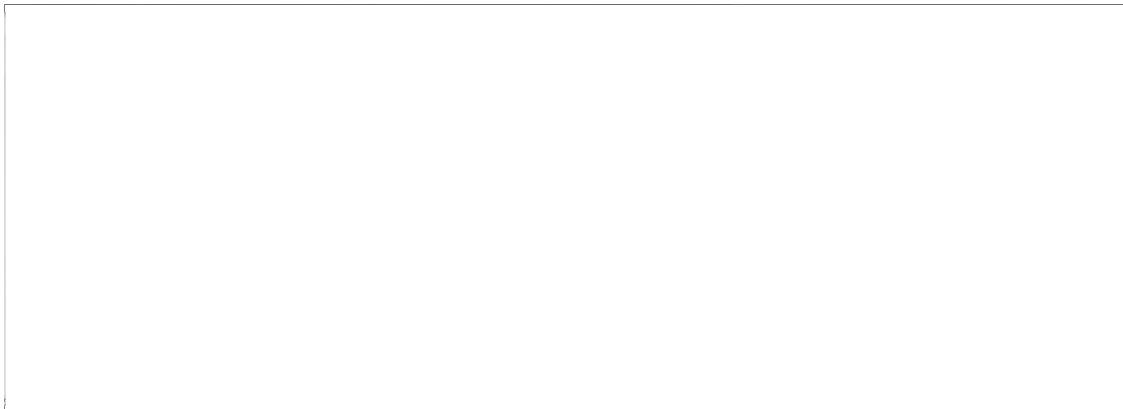
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## FOR THE RECORD

South Vietnam: Vietnamese Communist ground units supported by tanks overran the district town of Phuoc Binh in Phuoc Long Province on Tuesday. It was the fourth district town in the province to fall since early December and leaves only the provincial capital in government hands. Elsewhere, Communist gunners yesterday fired a barrage of rockets at Bien Hoa airbase but caused only minor damage. Light and inconclusive fighting continued on other battlefronts.

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France: Petroleum consumption was 6 percent lower in 1974 than in 1973, according to the preliminary estimate of a trade association. A big decline occurred in the first quarter because of the oil embargo and mild weather. Consumption picked up subsequently despite high prices and conservation measures, but for all of 1974 significant reductions were achieved in the use of aviation fuel, gasoline, and home heating oil. Before the embargo, oil consumption was growing at about 12 percent a year.

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